

# Fiscal Services Division

## Legislative Services Agency

### Fiscal Note

SF 2424 – Public Retirement Systems (LSB 6675SV)

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Fiscal Note Version – New

#### **Description**

Senate File 2424 makes numerous changes to the public retirement systems: Peace Officer's Retirement, Accident, and Disability System (POR), Iowa Public Employees' Retirement System (IPERS), Municipal Fire and Police Retirement System (411), and the Judicial Retirement System.

#### **FISCAL IMPACT SUMMARY**

The chart below shows the overall fiscal impact of SF 2424.

Fiscal Impact Summary									
	Employee				Employer				Total
	State	County	City	Other	State	County	City	Other	
POR System	\$ 0	\$ 0	\$ 0	\$ 0	\$ 779,000	\$ 0	\$ 0	\$ 0	\$ 779,000
IPERS	1,081,984	1,273,606	793,675	18,135	1,601,282	1,800,937	1,168,753	26,873	7,765,245
411 System	0	0	0	0	0	0	0	0	0
Judicial Retirement System	538,913	0	0	0	2,174,663	0	0	0	2,713,576
<b>Total</b>	<b>\$ 1,620,897</b>	<b>\$ 1,273,606</b>	<b>\$ 793,675</b>	<b>\$ 18,135</b>	<b>\$ 4,554,945</b>	<b>\$ 1,800,937</b>	<b>\$ 1,168,753</b>	<b>\$ 26,873</b>	<b>\$ 11,257,821</b>

#### **FISCAL IMPACT BY RETIREMENT SYSTEM**

##### **Peace Officer's Retirement, Accident, and Disability System (POR)**

The overall fiscal impact of the POR Section of SF 2424 is a cost increase of approximately \$779,000 to the State General Fund for FY 2009.

The current covered payroll for POR is \$38.9 million. For FY 2008, the State's contribution is \$6.6 million or 17.00% and the member's contribution is \$3.6 million or 9.35%. The actuarially required contribution rate is 44.69%. Based on the contributions listed above, the POR System has an annual shortfall of \$7.1 million or 18.34%. The current unfunded actuarial liability is approximately \$97.0 million. This System is currently at a 65.0% employer/35.0% employee contribution split.

	Current Law	Contribution Rates	Percent of Total Contribution
Employee	\$ 3,641,374	9.35%	35.0%
Employer	6,620,680	17.00%	65.0%
<b>Total</b>	<b>\$ 10,262,054</b>	<b>26.35%</b>	<b>100.0%</b>

Senate File 2424 requires, during the period July 1, 2008, through July 1, 2012, the State's contribution rate to increase by 2.0% per year of covered wages until the lesser of 27.0% or the normal contribution rate is attained. The overall estimated fiscal impact of the 2.0% increase on current covered payroll will be an additional \$779,000 in FY 2009, compounded annually thereafter until FY 2013. This increases the State's total contribution for FY 2009 to \$7.4 million. The increase in contributions for covered wages would be paid from the Department's operating budget and require additional General Fund salary adjustment allocations or an additional appropriation to cover the cost.

Proposed POR 2009 Contribution Change		Contribution Rates	Percent of Total Contribution
Employee Contribution - Current Law	\$ 3,641,374	9.35%	33.0%
Employer Contribution - Current Law	\$ 6,620,680	17.00%	
Proposed 2.0% Employer Contribution Increase	778,904	2.00%	
	\$ 7,399,583	19.00%	67.0%
Total	\$ 11,040,957	28.35%	100%

Sections 5, 11, and 60 eliminate the current actuarial method of “aggregate cost” and require the Board of Trustees to adopt a methodology. These Sections also require the POR System to report to the General Assembly using the “entry age normal” method. There is no fiscal impact for these Sections of the Bill.

Section 8 requires that if a member under age 55 receiving an accidental disability pension becomes employed in a public safety occupation, the disability retirement allowance will cease until the person reaches age 55. This is a cost savings to the System, but the fiscal impact cannot be determined.

### **Iowa Public Employees’ Retirement System (IPERS)**

The overall fiscal impact of the IPERS Section of SF 2424 is an additional total cost increase of approximately \$7.8 million in contributions paid the first year from moving four occupations from IPERS regular membership to the protection occupation membership group. The overall increase in the present value of future benefits is \$130.0 million. The combined contribution rate will increase from 14.08% to 16.14%. This will impact both employees and employers moving into the protection occupation group and employees and employers currently covered by the protection occupation group.

The IPERS overall funded ratio is 90.2%, with regular member benefits funded at 89.5%, sheriffs and deputies benefits funded at 100.8%, and the protection occupation benefits funded at 106.9%. The IPERS unfunded actuarial liability is \$2.266 billion.

Both the regular members and the protection occupation group contributions are split approximately 60.0% employer/40.0% employee, while the sheriffs and deputies group splits contributions 50.0% employer/50.0% employee.

Current Law FY 2009 Percent of Pay	Employee Share	Employer Share	Total	
Regular IPERS Members	4.10%	6.35%	10.45%	Set by statute
Sheriffs and Deputies	7.52%	7.52%	15.04%	Adjustable
Protection Occupation	5.63%	8.45%	14.08%	Adjustable

Senate File 2424 requires the following:

- **Free Military Service Credit** – No fiscal impact to the overall funding status of IPERS, but would increase the death benefits paid to beneficiaries.
- **Bonuses and Allowances** – The cost savings cannot be determined because employers do not report bonuses and allowances to IPERS separately from salary. Removing bonuses and allowances from the definition of IPERS-covered wages prevents inflating the final average wage used in the benefit formula.
- **Department of Administrative Services (DAS) Mandate** – Minimal fiscal impact from removing IPERS from the requirement to use DAS services. However, IPERS will continue to purchase information technology services from DAS when it is in the best interest of the Trust Fund.

- **Investment Management Expense Cap** – No fiscal impact on IPERS from the elimination of the 40 basis point cap on investment management services since IPERS will continue to negotiate performance-based contracts.
- **Employer Requirements** – Fiscal impact of \$16,500 in additional revenue from increasing the minimum fee assessed for late contributions from \$10 to \$20.
- **Setting Contribution Rates** – No fiscal impact from changing the entity that sets the rate. Only the General Assembly can change benefits affecting rates. The contribution rates for regular members, excluding any benefit increases the General Assembly may approve, is already set in statute through FY 2011. This provision would allow IPERS to change the rate up or down by a maximum of 0.5% a year for all groups based on current benefits. Between 2002 and 2007, inadequate contributions for benefits already authorized by the General Assembly increased IPERS unfunded actuarial liability by \$494.0 million.
- **County Jailers, Military Installation Officers, Emergency Medical Providers, and County Attorney Special Investigators Added to Protection Occupation** – The overall fiscal impact is \$7.8 million in increased contributions and an increase in the total contribution rate from 14.08% to 16.14% for the first year. The present value of the increased future benefits is \$130.0 million.

The following chart shows the contribution rate increase from adding four additional groups to the protection occupation group:

<u>FY 2009 Percent of Pay</u>	<u>Employee Share</u>	<u>Employer Share</u>	<u>Total</u>	
Current Protection Occupation	5.63%	8.45%	14.08%	Adjustable
Proposed Protection Occupation	6.46%	9.68%	16.14%	Adjustable
Difference	0.83%	1.23%	2.06%	

The chart below shows the breakout by group:

Protection Occupation Rate Increase from 14.08% to 16.14%			
	Member Increase	Employer Increase	Total Increase
County Jailers	\$ 1,062,335	\$ 1,498,972	\$ 2,561,307
Military Installation Officers	30,206	42,622	72,828
Emergency Medical Providers	261,448	368,908	630,356
Current Protection Occupation Group	1,813,411	2,687,343	4,500,754
Total	<u>\$ 3,167,400</u>	<u>\$ 4,597,845</u>	<u>\$ 7,765,245</u>

An actuarial cost study was not completed on the county attorney special investigators due to the small number.

The employer/employee breakout for the current protection occupation group is:

- State - 58.0%
- Cities - 38.0%
- Counties - 3.0%
- Other - 1.0%

The chart below shows the number of employees being added to the protection occupation group and the breakout by employer:

Protection Occupation Rate Increase from 14.08% to 16.14%		
	Number of Members Added	Employer
County Jailers	1,261	100.0% County
Military Installation Officers	30	100.0% State
Emergency Medical Providers	483	60.0% County and 40.0% City
County Attorney Special Investigators	6	100.0% County
Total	1,780	

- **Disability Benefits** – Potential cost savings but cannot be determined. This language clarifies that after the initial qualification, a regular member receiving disability benefits must continue to meet the eligibility requirements.
- **Retains Legislative Authority to Set Rates for Benefit Changes Authorized When IPERS is Fully Funded** – No fiscal impact.
- **Entry Age Normal Reporting** – No fiscal impact.

### **Municipal Fire and Police Retirement System (411)**

The current covered payroll for the 411 System is \$222.6 million. Currently, the State's contribution is capped in Section 8.59, Code of Iowa, at \$2.7 million. The cap dates from the 66<sup>th</sup> General Assembly (1977). The employees' rate is 9.35% and the cities rate is variable, depending on the actuarially required contribution; however, statutorily the cities' rate cannot be below 17.0% (Section 411.8, Code of Iowa). The 411 System is at a 107.0% funded ratio.

Sections 49, 50, 59, and 60 eliminate the current actuarial method of "aggregate cost" and provides for the Board of Trustees to adopt a methodology. These Sections also require the 411 System to report to the General Assembly using the "entry age normal" method. There is no fiscal impact for these Sections of the Bill.

Section 51 permits members to purchase service credit for military service by making contributions to the System in an amount equal to the actuarial cost of the service credit purchase. The total cost will be responsibility of the individual member making the purchase. There is no fiscal impact from this Section of the Bill.

### **Judicial Retirement System**

The overall fiscal impact of the Judicial Retirement Section of SF 2424 is an increase in employee contributions of \$539,000 and an increased State contribution of \$2.2 million from the State General Fund for FY 2009.

The current covered payroll for Judicial Retirement is \$24,920,348. In the Code of Iowa, the State's required contribution rate is 23.7% and the Judges' required contribution rate is 6.0%. However, SF 563 (FY 2008 Judicial Branch Appropriations Act) notwithstanding the State's required contribution rate and set the rate at 22.5% and the Judges' required contribution rate at 5.7%. The unfunded actuarial liability of the Judicial Retirement Fund is \$42.0 million.

	Current Law	Contribution Rates	Percent of Total Contribution
Judges	\$ 1,379,954	5.7%	20.2%
Employer	5,450,963	22.5%	79.8%
Total	\$ 6,830,917	28.2%	100.0%

Senate File 2424 requires that for FY 2009, the Judges' contribution rate is 7.7% of covered wages. For FY 2010, the Judges' contribution rate will be 8.7%. Beginning in FY 2011 and until the System attains fully-funded status, the Judges' contribution rate will be 9.35%. Beginning July 1, 2008, until the Fund attains fully-funded status, the State's required contribution rate will be 30.6%.

Fully-funded status means that the most recent actuarial valuation reflects the funded status of the System is at least 100.0% of the benefits provided for the Judges through the Judicial Retirement System as of July 1, 2006. When the Fund reaches fully-funded status, the State's share will be 60.0% of the required contribution rate and the employees' share will be 40.0% of the actuarially-required contribution rate.

		<b>Contribution Rates</b>	<b>Percent of Total Contribution</b>
	<b>Proposed Change</b>		
Judges	\$ 1,918,867	7.7%	20.1%
Employer *	7,625,626	30.6%	79.9%
Total	<u>\$ 9,544,493</u>	<u>38.3%</u>	<u>100.0%</u>

\* Employer's rate is notwithstanding to 30.6% in HF 2647 (FY 2009 Judicial Branch Appropriations Bill)

Sections 54 and 60 eliminate the current actuarial method of "projected unit credit" and require the State Court Administrator to adopt a methodology. These Sections also require the Judicial Retirement System to report to the General Assembly using the "entry age normal" method. There is no fiscal impact for these Sections of the Bill.

### **Sources**

Peace Officers' Retirement, Accident, and Disability System (POR)  
Iowa Public Employees' Retirement System (IPERS)  
Municipal Fire and Police Retirement System (411)  
Judicial Retirement System

/s/ Holly M. Lyons

April 17, 2008

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The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.

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